

Six State Review Overviews

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Colorado: K-12 Funding Profile

Background and Legal Environment

The constitutional requirements for education spending are embedded in the three constitutional amendments described above. Additionally, the Public School Finance Act, also described above, spells out the state's obligations around K-12 funding.

Regarding historical and current litigation around K-12 funding, 1977 marks the first lawsuit brought against the Colorado State Board of Education on the question of equity. The trial court sided with the plaintiffs, but the state supreme court overturned the decision in *Lujan v. Colorado State Board of Education* (1982). The supreme court concluded that the state's education clause did not require "absolute equality in educational services or expenditures."

In the late 1980s, another suit was filed that claimed a denial of "basic" education opportunities (adequacy, rather than equity). The suit was withdrawn, but it ultimately led to passage of the Public School Finance Act of 1988 (described above).

In 1998, yet another group of plaintiffs sued the Board of Education claiming that the poor physical state of the public school buildings "deprived students of educational opportunity." In June 2000, a trial court judge approved a settlement of the suit, in which the state committed to spend \$190 million over more than 10 years for repairs and new construction. The Legislature passed Bill 181 in 2000 to implement the settlement.

In July 2002, a suit was filed against various state agencies and officials for violating the state constitution's requirement of a "thorough and uniform system" of free public schools. The complaint also alleges underfunding of special education. This case has not yet been decided.

School System Demographics

In the 2004-05 school year, Colorado had a Pre-K-12 student population of 766,657¹ out of its total population of approximately 4.6 million. The ethnic makeup of the student population is 63.5% White, 26.2% Hispanic, 5.9% Black, and 4.4% Asian and American Indian.

Almost 100 charter schools operate in Colorado, teaching 36,932 (5%) of the 766,000 public school students statewide. The latest one-year growth in charter school attendance, from the 2003-04 school year to the 2004-05 school year, was 17%. Charter schools are funded the same as regular public schools, as indicated below.

Some Colorado school districts also provide pre-K programs; there are 32 pre-K or Kindergarten only schools in the state.

¹ "2004 Colorado Education Facts," Colorado Department of Education, Data and Research office, January 14, 2005.

Revenue Sources

Colorado funding for K-12 differs from Washington's system in that local funds are relied upon first as a funding source. State funds are used to make up the difference, and to equalize K-12 revenue across the 176 districts.

Local funds for K-12 education come primarily from **property taxes** (accounting for approximately 33.8% of all K-12 funding, statewide) and to a small extent from **vehicle registration taxes** (3.8% of all K-12 funding, statewide).

State funds for K-12 education come from the state general fund, which collects revenue primarily from state income (personal and corporate) and sales and use tax revenues. State funds account for about 62.4% of all K-12 funding, statewide. The state share of total K-12 funding has been growing since the late 1980s. Prior to passage of the initial school finance reform law in 1988, local funds comprised the majority, around 57 percent, of total education funding. Since implementation of the 1988 finance act, however, the state share of total funding has grown steadily to its current level of 62 percent of total expenditures and will likely continue to grow.

For the 2002-03 school year, K-12 funding accounted for \$2.5 billion, or 40 percent, of all state funds (not total funds).

There are three amendments to the Colorado constitution that impact K-12 funding in the state: the Gallagher amendment (1982), the Taxpayers Bill of Rights (TABOR – 1992), and Amendment 23 (2000). Additionally, there have been two major education finance acts: the Public School Finance Act of 1988 (now repealed), and the Public School Finance Act of 1994.

- **Gallagher Amendment (1982):** Designed to provide property tax relief to residential homeowners.
- **TABOR (1992):** Limits state and local revenues and spending to the rate equal to or less than inflation plus the percentage of pupil growth.
- **Amendment 23 (2000):** This constitutional amendment was implemented to mitigate the effects of TABOR on education funding and close the per-pupil funding gap between Colorado and the national average. The amendment makes four major changes: (1) requires that the statewide “base” funding for K-12 be increased at a rate equal to inflation plus one percent each year through 2010-11; (2) requires all categorical funding to also be increased at a rate equal to inflation plus one percent each year through 2010-11, and by the rate of inflation thereafter; (3) creates the “State Education Fund,” which is exempt from TABOR limits and which collects state funds equal to one-third of one percent of the state’s total federal taxable income; and (4) requires a maintenance of effort of education funding on the state’s behalf (the state general fund contribution to K-12 funding should grow by at least 5% annually if personal income grows by at least 4.5%).²

² “Amendment 23: A Brief Overview,” by Legislative Council Staff, Colorado General Assembly, 2001.

- **Public School Finance Act of 1988:** This was Colorado's first attempt to equalize public spending on K-12 across the state. The goal was to increase the state share of funding education at the same time as decreasing the dependency of K-12 funding on personal property taxes.
- **Public School Finance Act of 1994:** This law repealed the 1988 act and created the "base" funding formula for state and local funding of public schools described below.

Basic Funding Formula

Like Washington's, Colorado's basic funding formula relies primarily on a per pupil calculation. Unlike Washington, however, the Colorado formula then makes adjustments to the statewide per pupil amount to account for local cost of living (COLA) differences, variations in locally-negotiated teacher pay, and district size differences.

A total pupil count is made in October of each year to determine the district's total funding for the current school year. In districts where the pupil count is declining from year to year, an average of pupil counts for up to the three prior years is used. The pupil count includes current year enrollment, charter school students, preschool students (counted each as .5 FTE), and on-line students. The 178 school districts in Colorado range in size from 58.1 to 82,930.1 FTE students.

For 2005-06, the base funding for each pupil is \$4,717.62. To calculate "total per pupil funding," the pupil count of each district is multiplied by the district's base funding amount which is the state base, adjusted for the three factors mentioned: cost of living, personnel costs, and district size.

- **Cost of Living Factor** reflects the differences in costs of housing, goods, and services among each of the 178 districts. Cost differences are reviewed and revised every two years by the Legislative Council of the Colorado General Assembly. The cost differences are calculated based on a basket of goods composed of housing, transportation, goods and services, and "other."³ For 2005-06, the cost of living index ranges from 1.009 to 1.641.
- **Personnel Costs Factor** varies by school district based on enrollment. The factor is based on historical information of staff expenses and incorporates the cost of living factor identified above. For 2005-06, this factor ranges from 80-90 percent.
- **Size Factor** is determined using an enrollment-based calculation unique to each district. This factor is intended to recognize economies of scale. Smaller districts receive greater size factors than do medium or larger districts. For 2005-06, size factors range from 1.0297 to 2.3654.

Once this "total per-pupil funding" amount is calculated, it is then increased again with specific funds for at-risk students and on-line students to arrive at "total program," Colorado's equivalent to Washington's general apportionment.

³ "Cost of Living Differentials in Colorado: 2002," by Elizabeth Garner and Jerry Eckert, Colorado State University Cooperative Extension.

- **At-risk funding** is determined by the number of students in each district that qualifies for the federal free lunch program⁴ and is calculated on a per-student basis. For each at-risk pupil, a district receives an additional 12-30 percent of its total per-pupil funding.
- **On-line funding** is calculated as the minimum allowed per pupil in the funding formula, with no factor adjustments.

Once the funding formula identifies a total program cost, local sources of revenue (property taxes and vehicle registration taxes) are counted first. Then, state sources of revenue (income taxes and sales and use taxes) are provided to make up the balance. Currently, the split between local and state funding for K-12 is roughly 37 percent local and 63 percent state. Districts are allowed to ask voters for authority to collect and spend additional dollars for K-12. This is called “override revenue” and does not affect the amount of state funding the district receives. And finally, districts are required to set aside in a capital reserve fund at least \$271 per pupil to meet capital and/or insurance needs.

Charter schools are funded based on their October enrollment numbers and receive 100% of the per pupil revenue. Within specific parameters, districts may charge charter schools for central overhead administrative costs. Charter schools also receive additional funding for at-risk students, capital facilities, and capital construction.

Targeted Funding Formulas

In 2005-06, Colorado will provide approximately \$161 million for the following six categorical programs:

- **English Language Proficiency Education.** Approximately 12 percent of total students statewide have dominant languages other than English.⁵ Spanish speaking students comprise 80 percent of this population. Districts receive funding based on three student classifications: (A) students who do not comprehend or speak English; (B) students speak and comprehend some English, but their dominant language is another, and (C) students who speak and comprehend some English but whose dominant language is difficult to identify. Over 75% of funding in this program is provided for (A) and (B) students. Funding is provided for a student for a maximum of two years. Current funding (approximately \$4 million for 2005-06) will cover costs to provide services to roughly half of the eligible students.
- **Gifted and Talented Education.** Gifted students represent approximately 7 percent of the total student population. School districts are given wide discretion in setting up a gifted/talented program for their students. In 2005-06, categorical funding for gifted and talented education is \$6.2 million. To receive funds, school districts must

⁴ Beginning in 2005-06, the at-risk population definition was expanded to include some English language learners, as well.

⁵ “Understanding Colorado School Finance and Categorical Funding,” Colorado Department of Education, July 2005.

submit an annual plan that outlines its student needs and proposed program. There is a 50% match requirement to receive state funds.

- **Small Attendance Centers.** Districts with few students and rural in nature face unique costs. In 2005-06, \$844,000 was provided to 11 districts operating a total of 13 remote schools; the local districts in turn dedicated an additional \$1.6 million. Allocation of the additional state funds is based on a formula.
- **Special Education.** Approximately 10.8 percent of the total student enrollment for 2005-06 is eligible to receive special education services. Of the estimated total annual cost of services (\$785 million), state funding covers roughly 11% of total costs, while federal (18%) other (1%) and local (70%) cover the remaining.⁶ Funding is distributed based in part on historical spending patterns and in part on student counts. A small amount of funding is set aside to pay for special education services for children who are wards of the state and who live in eligible facilities.
- **Transportation.** Approximately 42 percent of the student population use district-provided transportation. Districts may operate their own bus fleet and transportation program, or they may choose to contract out. One school district has no transportation program. State assistance is provided to districts to cover operating costs for transportation, but not capital costs. State funding, provided on a per-student-mile reimbursement rate, covers approximately 62 percent of total transportation costs.
- **Vocational Education.** 89 percent of all Colorado school districts provide some type of vocational education programming. State payment is made to districts also based on a reimbursement system, at a maximum of 80 percent for the first \$1250 and 50% for the balance. The state will pay approximately \$22 million of a total program cost estimated at \$77 million.

Districts that can afford to fully fund their K-12 education program with only the minimum required from the state may have to “buy out” the state in these categorical programs. That is, districts that can otherwise fully-fund their required basic education (minus the required amount from the state) have to collect additional property tax revenue to also pay for their categorical programs. Only a handful of districts have had to do this in the past; no districts are required to do this currently.

⁶ Ibid.

Compensation

The average teacher salary for the 2004-05 school year was \$43,965. The district with the highest average salary was Cherry Creek, with an average of \$52,145; the district with the lowest average salary was Pritchett, with an average of \$25,840.⁷

Chapter 191 of Colorado Public Law (HB 95-1014) requires that the board of every school district adopt a salary schedule, a salary policy based on teacher performance, or a combination of the two. The salary schedule and/or policy shall be adopted prior to or with the next year's budget.

Denver's Pay for Performance Pilot and ProComp

The Denver Public Schools and the Denver Classroom Teachers Association sponsored the Pay for Performance pilot.⁸ This was a four-year (1999-2003) pilot program in 16 schools within the Denver Public School district (13% of the district's schools).

Denver's Professional Compensation Program for Teachers (ProComp) was created in 2004 as a result of the success of the Pay for Performance pilot. ProComp is a compensation system based on individualized earning opportunities: teachers have the ability to earn additional compensation above the base salary through 9 different elements within four components. The components and elements are as follows:

- Student growth (meeting self-determined annual objectives, students passing the state standardized test – CSAP, and/or a designation of a “distinguished” school)
- Knowledge and skills (professional development training, graduate degree or national board certification, coursework tuition reimbursement)
- Market incentives (hard to staff positions and hard-to-serve schools)
- Professional evaluation (successful supervisor evaluation)

The base salary is set at \$33,301, but teachers have the opportunity to earn annual and one-time salary add-ons based on the above nine elements.

Douglas County has a similar structure that has been in place for over 10 years now. Douglas County has a performance-based pay plan that centers around a base salary and bonuses based on teachers knowledge and skills. Years of experience contribute to salary increases only when the

⁷ Colorado Department of Education, “Pupil Membership and Classroom Teacher Data,” Fall 2004,

⁸ “Catalyst for Change: Pay for Performance in Denver,” Community Training and Assistance Center, January 2004, p. 4.

teachers receive positive evaluations. Teachers can receive bonuses through five different programs:

- Outstanding teacher (based on assessment and a portfolio)
- Site responsibility pay (additional duties with students and/or programs)
- Group incentive (participating in school wide or cooperative activities)
- District responsibility pay (serving on district level committees or task forces)
- Skill blocks (successful completion of district-led training)⁹

Resources

“2004 Colorado Education Facts” (January 2005), Colorado Department of Education.

“Amendment 23 and Public School Financing in Colorado” (March 2003), Donnell-Kay Foundation.

“Understanding Colorado School Finance and Categorical Program Funding” (July 2005), Colorado Department of Education.

⁹ “Teaching in Colorado: An Inventory of Policies and Practices,” by Eric Hirsch and Shelby Samuelson, National Conference of State Legislatures, February 2000.

Kentucky State Overview

Legal Environment

A number of property-poor rural school districts sued the state in 1985 alleging that the state constitution was violated due to the lack of “an efficient system of common schools throughout the state” because educational opportunities were different in each district due to an inequitable funding structure. The system was also plagued by widespread nepotism on the part of those in leadership positions, such as superintendents, principals and school board members.

Efficient was defined as “substantial uniformity” of financial resources and educational opportunity and calls for the system to be adequate, uniform and unitary.

The State Supreme Court concluded that the state General Assembly had not created an efficient system of common schools. They specifically wrote that the entire system of schools was unconstitutional. This meant that the General Assembly had the responsibility to recreate a new system of common schools that was efficient and to adequately fund the new system, not just redistribute current dollars (*Rose v Council for Better Education*). As a result of this decision, the Kentucky Legislature enacted the Kentucky Education Reform Act (KERA) and the Support Education Excellence in Kentucky (SEEK) funding formula in 1990.

School System Demographics

Kentucky enrolled 663,885 students in the 2004-05 school year based on data from the National Center for Education Statistics (NCES). The majority of these students are Caucasian (87%), with 10% African American, 2% Hispanic, and Asian Americans and Native Americans numbering less than 1% each.

The state has 176 districts: 120 county districts and 56 independent districts within the counties. According to the Kentucky Department of Education website, there are 1,241 schools; 2% are preschools, 61% are elementary schools, 18% are middle schools, and 19% are high schools. In the 2002-03 school year, 81% of kindergarten programs were full day and 14% were half day. All-day kindergarten is not state funded, it is funded by local revenues. All schools are networked with Internet access and use email, and all classrooms have direct telephone access. There is a 15:1 ratio of students to computers (goal is 6:1) and 2.6:1 ratio of teachers to computers (goal is 1:1).

Over 99,000 qualify for gifted and talented services and the program cost \$7.1 million in fiscal year 2005. One percent of students had limited English proficiency with the majority speaking Spanish (58%), 5% speaking Bosnian, 5% speaking Japanese, 3% speaking Vietnamese, 3% speaking Serbo-Croatian, and 20% speaking other languages including Arabic, Chinese/Mandarin, Korean and Somali. Kentucky’s population of students with limited English

proficiency is the fifth fastest growing in the nation. The state has a wealth-neutrality score of 0.065.

The Kentucky Department of Education reports there are 24,414 preschool children and the preschool state budget is \$51.6 million. Preschools are not fully funded by state revenues and are augmented by local funding.

According to NEA Research Rankings and Estimates, the per-pupil funding is \$7,906. Out of the six states, Kentucky's per pupil spending ranks fifth highest. When including Washington, Kentucky ranks right above Washington in per pupil spending. There is a 15.9:1 ratio of students to teachers.

Kentucky has the goal of all students performing at the proficient level on the state's standardized test by 2014.

Revenue Sources

According to National Education Association (NEA) Research, Kentucky ranks sixth out of the seven states in this review, right above Oregon, in total expenditures for the 2004-05 school year. Kentucky provides the fifth highest amount in state revenues, right below Maryland and provides the least amount of local funds when comparing to all the states in this review. Meanwhile, Kentucky's enrollment is the sixth highest, above only Oregon in number of students.

Local Revenue

Local revenues account for \$1.620 billion of the total education budget. When looking at percentage of local revenues out of total expenditures, Kentucky ranks fifth highest out of the seven states, at 29.4%, above Washington and North Carolina (NEA, August 2005).

These revenues are raised via a variety of taxes including property taxes and permissive taxes. Permissive taxes can be levied by a district board of education by first giving public notice and conducting a public hearing to explain the reason for the tax and to hear comments. Any permissive taxes are subject to petition and recall by voters in the district and are in effect until the board reduces the rate. Kentucky has utility, occupational and excise permissive taxes.

State Revenue

According to the Kentucky Department of Education, the total state education revenue totaled \$3.092 billion in fiscal year 2005. The majority of funds (\$2.051 billion) come through the Support Education Excellence in Kentucky (SEEK) funding formula. Kentucky's education system has a high percentage of state funds in its total funding and SEEK has barely kept pace with inflation since 1990. They rank 20th in the category of total revenues from state government. Meanwhile, total revenues from local funds was \$6.1 billion, ranking them 31st in this category. When looking at percentage of state revenues out of total expenditures, Kentucky ranks second highest out of the seven states, at 58.0%, behind North Carolina (NEA, August 2005).

Kentucky also has a number of programs within their Kentucky Education Reform Act (KERA): *Professional Development* (grants based on average daily attendance); *KERA Preschool* (grants based on guidelines in statute); *Extended School Services* (grants based on formula); *Educational Technology*; *Family Resource/Youth Service Centers* (grants based on criteria set forth by Cabinet for Families and Children). Other state grants include: *School and Community Nutrition* (state revenue matching funds); *School Bus Driver Training* (grants provided to increase driver training hours); *State Agency Children* (districts reimbursed for services provided to children in state institutions or day treatment centers); *Textbooks K-8* (per pupil allotment to provide free textbooks and instruction materials to kindergarten through eighth grade students); *Teacher Internship* (funds for three-member beginning teacher committee that determines successful completion of program by all new and out-of-state teachers with less than two years of experience); *Principal Internship* (funds provided for administration of this program); *Writing Program* (grants provided for professional development in the area of improving student writing performance); *Dropout Prevention* (grants provided to schools with high drop out rates); *Locally Operated Vocational Schools* (funds allocated by formula determined by teacher count per school); and *State Operated Vocational Centers* (funds allocated based on number of full-time equivalent students served).

Federal Revenue

Kentucky schools receive \$647 million in federal revenue with 905 schools that operate Title I programs and 807 operate school-wide Title I programs.

Basic Funding Formula

The Support Education Excellence in Kentucky (SEEK) formula is based on three levels of funding: Adjusted Base Guarantee, Tier I and Tier II.

Adjusted Base Guarantee

This component is a guaranteed per-pupil amount (\$3,222 in 2004-05) multiplied by the district's prior year average daily attendance plus growth adjusted for positive differences in school population characteristics (current year average daily attendance (ADA) for September to October change from prior year ADA for September to October multiplied by end of year ADA). The guaranteed per-pupil amount is defined by the biennial budget and is a function of projected values of all other variables and amount available for appropriation.

$\text{Adjusted Base Guarantee} = \text{Per-pupil amount} \times (\text{Prior Year ADA} + \text{Growth Adjustment})$
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This Adjusted Base Guarantee is funded via a required local effort (\$0.30 per \$100 value of total assessments) and the remaining amount is funded by the state.

The major drivers of the SEEK formula are the needs of children. Children living in poverty or having special education needs drive the most dollars. Poor children living in poor counties receive more funding when local, state and federal funds are totaled due to the maximum amount of local funds districts can raise. A study by Picus, Odden and Fermanich (2001) found that the

SEEK formula was equitable and that there is no longer a link between property values and per pupil funding.

Tier I

School districts can raise an additional 15% over the Adjusted Base Guarantee via local taxes. The state will match local revenues up to 150% of the projected average statewide assessment per pupil. Districts with lower per-pupil assessments receive higher state equalization. Tier I was implemented to provide an incentive for poorer districts to increase their tax effort. A district may receive full, partial or no Tier I equalization. In 1999-00, 167 of 176 school districts were eligible for Tier I.

Tier II

School districts can raise an additional 30% over the Adjusted Base Guarantee and Tier I, however, there is no state equalization.

Hold Harmless

School districts are guaranteed that they will receive the same per pupil funding as in 1991-92. If a district's SEEK funding is less than this amount, the hold harmless provision will fund the district at the 1991-92 per pupil level. Since it is based on the number of students, a district may receive less total SEEK funds than in 1991-92 if they have fewer students.

Targeted Funding Formulas

The SEEK formula provides addition funding for "Add-on Populations."

At-Risk Add-On

At-risk students are children from low-income families, defined by their qualification for the federal free lunch program. The guaranteed base is multiplied by 15% which is multiplied by the eight month average number of students who qualified for the free lunch program.

$$\text{At-Risk Add-On} = [(\text{Adjusted Base Guarantee} \times .15) + \text{Adjusted Base Guarantee}] \times \text{Eight month average number of at-risk students}$$

Exceptional Child Add-On

Exceptional children are those with disabilities and additional funds are provided based on the level of disability. *Low incident disabilities* are defined as functional mental disability, hearing impairment, emotional-behavioral disability, visual impairment, multiple disabilities, deaf-blind, autism, or traumatic brain injury and receive a weight of 2.35. *Moderate incident disabilities* are defined as mild mental disability, orthopedic impairment or physically disabled, other health impaired, specific learning disabilities or developmental delay and receive a weight of 1.17. *High incident disabilities* are defined as communication disorders of speech or language and receive a weight of 0.24.

Low Incident Add-On = $\frac{[(\text{Adjusted Base Guarantee} \times 2.35) + \text{Adjusted Base Guarantee}]}{\text{Number of low incident disability students}}$

Moderate Incident Add-On = $\frac{[(\text{Adjusted Base Guarantee} \times 1.17) + \text{Adjusted Base Guarantee}]}{\text{Number of moderate incident disability students}}$

High Incident Add-On = $\frac{[(\text{Adjusted Base Guarantee} \times .24) + \text{Adjusted Base Guarantee}]}{\text{Number of high incident disability students}}$

Total Exceptional Child Add-On = Low Incident Add-On + Moderate Incident Add-On + High Incident Add-On

Home and Hospital (H&H) Add-On

Students being taught at home or in a hospital due to medical conditions is adjusted by subtracting the capital outlay allotment of \$100 since these students are not using facilities.

$$\text{H\&H Add-On} = (\text{Adjusted Base Guarantee} - \$100) + \text{Adjusted Base Guarantee}$$

Transportation Funding

The transportation formula is designed to encourage efficiency in the transportation of children living more than one mile from school. It is based on the number of transported students multiplied by the average cost per pupil per day of transporting pupils in districts having a similar density of transported students per square mile of area served. Because of this use of average costs, some districts receive more SEEK funding than needed and others receive less SEEK funding than needed.

$$\text{Transportation Funding} = \text{Number of transported students} \times \text{Average cost per transported student of districts with similar densities per square mile}$$

Compensation

Teachers are compensated for 185 days with four days of professional development, four holidays and two planning days. Based on the 2003-04 school year, there are over 40,000 full-

time equivalent public school teachers, over 7,500 full-time equivalent certified staff members, and over 49,000 classified staff members. Schools not meeting their improvement goals can be assigned a highly skilled educator who works with the entire staff to improve test scores. There are 49 in the state. The pupil teacher ratio is 15.9 to 1, ranking them 17th highest pupil teacher ratio. The average teacher salary in the 2004-05 school year was \$40,522, up 0.7% from 2003-04, ranking them 34th in the country. When looking at all seven states, Kentucky ranks well below the other states of this study (NEA, August 2005).

Salary Schedule

Prior to 1990 and KERA, there was a minimum salary schedule with periodic mandated increases. Once KERA was implemented, districts provided salary increases as they saw fit. In 1998, the Legislature again began mandating salary increases to districts' locally bargained salary schedules. These mandated salary increases have forced districts to use most if not all of their additional state revenue on salaries.

Differentiated Pay

In 2002, the Legislature funded a professional compensation fund in the 2003-05 biennium to provide grants to school districts to pilot differentiated compensation programs based on one or more of the following ideas: to recruit and retain teachers in critical shortage areas; to help reduce the number of emergency certified teachers employed in the district; to provide incentives to recruit and retain highly skilled teachers to serve in difficult assignments and hard-to-fill positions; to provide career advancement opportunities for classroom teachers who voluntarily wish to participate; or to reward teachers for increasing their skills, knowledge, and instructional leadership within the district or school. This program no longer exists because funding was not provided by the Legislature in the 2005-07 biennium.

Successful School Rewards

When KERA was implemented, it included rewards and sanctions based on attainment of or failure to reach improvement goals. In the first few years, schools received rewards in the form of money and certificated staff decided how the money was to be spent. Various other distribution options were tried and the program was eventually discontinued.

Resources

Jacovitch, Dan; Stacie Otto; Cindy Upton; and Greg Hager. (November 14, 2002) "The SEEK Formula for Funding Kentucky's School Districts: An Evaluation of Data, Procedures, and Budgeting." The Legislative Research Commission Research Report No. 310

Kentucky Revised Statutes 157.075

National Center for Education Statistics (NCES). (November 2005). "The Nation's Report Card, Kentucky State Profile."

National Education Association (NEA) Research. (August 2005). "Rankings & Estimates: A Report of School Statistics Update."

Picus, Lawrence O., Allan Odden and Mark Fermanich. (2001). "Assessing the Equity of Kentucky's SEEK Formula: A Ten-Year Analysis." Paper prepared for The Kentucky Department of Education.

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DRAFT

Maryland State Overview

Background & Legal Environment

Out of the six states in this study, Maryland's education reform is the most recent. The Bridge to Excellence in Public Schools Act (Chapter 288), passed in 2002 and integrated three key reform strategies. First, Maryland, using the goals in NCLB and state targets, set high performance expectations for students, schools and school systems. Second, the state provided more funding and flexibility for schools systems to meet those expectations. Finally, Maryland established an accountability system linking funding to the performance of students and schools in school systems. This State overview will provide a brief description of Maryland's legal environment, school system demographics, funding structures and general staff compensation and incentives.

In 1983, Hornbeck V. Somerset County Board of Education, 458 A.2d 758, the State's highest court decided to reject the "equity" argument holding that the state constitution did not mandate equality in per-pupil spending among the state's school districts. The court concluded that the education clause of Maryland's constitution guarantees students the right to "an adequate education measured by contemporary educational standards."¹⁰

In 1994, the American Civil Liberties Union (ACLU) of Maryland and Baltimore City commenced legal action against that state charging that the state was not providing an "adequate" education to the city's students. In the consolidated Bradford v. Maryland State Board of Education (1996), the trial court agreed, but there was disagreement regarding the cause of the inadequacies. In 1997, the parties entered into a settlement that provided an increase in state funding for the Baltimore City Public Schools in exchange for a new governing board appointed by the governor and the mayor.¹¹

The consent decree stipulated that if the state failed to provide additional funds requested by the new board, the plaintiffs could return to court. By February of 2000, the new board had completed a needs assessment and requested an additional \$2,600 per pupil. The state, however, did not fund the request, and, as a result, the plaintiffs went back to court. The court, in June of 2003, declared that the state had violated the consent decree by not providing the students of Baltimore City an adequate education and the increased funding needed to be provided by the State. Though Maryland never complied with the order, it had already established a commission to make recommendations on how the State should fund its schools.¹²

In 1999, the Maryland legislature created the Commission on Education Finance, Equity, and Excellence ("Thornton Commission") to study and make recommendations on the state's school funding system. Three years later, the Thornton Commission recommended that the state restructure its finance system and phase in, during the course of five years, over a \$1 billion increase in its annual support for public education. At the end of the 2002 session, the Bridge to

¹⁰ Hunter, Molly A. Maryland Enacts Modern, Standards-Based Education Finance System: Reforms Based on "Adequacy" Costing-Out Study and Parallel New York Court Funding Principles, CFE/ACCESS Policy Brief (2002).

¹¹ Ibid., Pg. 1

¹² Ibid., Pg. 2-3

Excellence in Public Schools Act (Chapter 288) passed, requiring a \$1.3 billion increase in state funding to be phased in over six years and establishing a new school funding structure.

School System Demographics

According to National Center for Education Statistics' (NCES) Fall 2002 data, Maryland's K-12 population is 866,744. Comparing to the other states in this study, it has the third largest student population in the group. Breaking-up the student population into race/ethnicity, 37.5 percent are African-American, 5.8 percent are Latino, 4.7 percent are Asian Pacific Islander, and .4 percent are American Indian/Alaska Native. Maryland has the largest total minority population compared to the other states in the study. In addition, about 13.1 percent are students with disabilities.

Revenue Sources

In Maryland, funding education is a state and local responsibility with a small contribution from the federal government. **Exhibit 1** below depicts the breakdown of funds for the 2004-05 school year. Revenue totaled approximately \$9.5 billion.¹³ Of the total, the state funds accounts for about \$3.5 billion or 37% of all revenue.¹⁴ Local sources generate the largest portion of revenue at 56% or \$5.3 billion.¹⁵ Federal funds are about 7% of all revenue or about \$687 million.¹⁶

Exhibit 1

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Funding Education Reform

To generate the revenue necessary to support the new state funding model, the Bridge to Excellence Act increased the tobacco tax rate for cigarettes from 66 cents to \$1. The law required that the first \$80.5 million dollars generated from the tax increase was to be placed in a special fund to provide for the fiscal 2003 enhancements to state education aid. Everything over \$80.5 million from fiscal year 2003 forward is placed in the general fund.

Basic Funding Formulas

The majority of the state aid for instructional purposes, under the Bridge to Excellence Act (Chapter 288), is provided through four major grants, one based on total student enrollment and three based on the enrollments of three categories of special needs students. Maryland moved to this system in order to simplify the state's financial structure, while, at the same time, increasing overall the state's support for public schools. The four main grant programs, along with some smaller grants, will over time replace the more than 27 state education aid programs by 2008.¹⁷ This section of the overview will describe the foundation program, guaranteed tax base program, and student transportation program.

¹³ National Education Association. *Ranking & Estimates Update: A Report of School Statistics*. Fall 2005.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Legislative Handbook Series VII: Maryland Local Government: Revenues and State Aid. 2002. Pg. 85

Foundation Program

Before Chapter 288, the annual per pupil foundation amount was based on actual spending in prior fiscal years. The new method sets a target amount based on an adequacy study which estimated how much funding would be needed to ensure that the “average” student could meet Maryland’s academic performance standards. From 2004 through 2008, per pupil spending will increase until it reaches approximately \$6,400. After the target per pupil funding is reached in 2008, the amount will be increased annually based on inflation. For fiscal year 2003, the foundation amount was set at \$4,291. For 2004, the amount increased to \$4,766 and in fiscal year 2005, it went up again to \$5,039.¹⁸

Distribution

The calculation of the state and local share of the minimum foundation for each of the 24 school systems is based on full-time equivalent (FTE) enrollment and county wealth. FTE students include the number of students enrolled in grades 1-12, plus a proportion of the students in kindergarten programs, plus the number of FTE students enrolled in evening high school programs. Wealth is defined as the sum of 40 percent of real property assessable base, 50 percent of personal property assessable base and net taxable income.¹⁹

The following formulas are the building blocks of the foundation model:

Local Contribution Rate =

$$\frac{(\text{Overall Local Share})(\text{Per Pupil Foundation Amount})(\text{Total County Enrollment})}{\text{Total County Wealth}}$$

County Wealth =

$$(\text{40\% of Real Property}) + (\text{50\% of Personal Property}) + (\text{50\% of Net Taxable Income})$$

Local Share = (Local Contribution Rate)(County’s Wealth)

State Aide to County =

$$(\text{Per Pupil Foundation} \times \text{Local Enrollment}) - (\text{Local Contribution Rate} \times \text{County Wealth})$$

¹⁸ Department of Legislative Services. Fiscal and Policy Note for House Bill 560.

¹⁹ Legislative Handbook Series VII: Maryland Local Government: Revenues and State Aid. 2002. Pg. 91

Each school system is guaranteed a minimum state share under Chapter 288. In fiscal year 2004, the state's minimum contribution was 25 percent of the total program. The State's guaranteed share will decrease each year until it reaches 15 percent in 2008.²⁰

Guaranteed Tax Base Program

Chapter 288 also established an 80 percent guaranteed tax base program designed to provide additional state education aid to counties that: (1) have less than 80 percent of the statewide average wealth per pupil; and (2) provide local education funding above the local share required by the foundation program.²¹ To encourage low-wealth counties to maintain or increase local education tax effort, the program uses local education tax effort and wealth to determine state aid amount for each eligible school system.

Distribution

The distribution of funds is calculated as follows:

County's Local Effort =

$$\frac{(\text{County's Overall Education Appropriation}) - (\text{County's Local Share of Foundation})}{\text{County's Wealth}}$$

State Aide =

$$(\text{Local Effort})(80\% \text{ of Statewide Wealth Per Pupil} - \text{Local Wealth Per Pupil})(\text{Local Enrollment})$$

In essence, the formula provides local education agencies with the level of funding they would have received from the local county, if it had made the same education tax effort and had the tax base that is "guaranteed." However, the per pupil state contribution is limited to 20 percent of the per pupil foundation amount.²²

Geographic Cost of Education Index Program

One of the recommendations that came out of the Thornton Commission was to adjust state aid to reflect regional differences in the cost of education. However, the Commission did not believe that there was an accurate geographic cost of education index (GCEI) at the time. Therefore, it recommended that the Maryland State Department of Education (DOE) contract for the development of a GCEI. In 2004, the legislature set into statute the recommendations from the DOE's consultants in the Adjusting for Geographic Differences in the Cost of Educational Provision in Maryland report. The formula was designed to increase aid to counties with above average costs (GCEI values greater than 1.0) but not reduce aid for counties that have below average costs. However, the GCEI formula has yet to be funded by the legislature.

²⁰ Ibid., Pg. 92

²¹ Ibid., Pg. 102

²² Ibid., Pg. 102

Student Transportation Program

The base transportation grant equals the county's base grant in the prior year, increased by the lesser of 8 percent or the change in the transportation category of the Consumer Price Index for Baltimore-Washington metropolitan area from the second preceding fiscal year. However, each county is guaranteed a minimum 3 percent annual increase in its base grant under Chapter 288. For districts that experience an increase in enrollment, they receive an additional grant amount equal to the district's student enrollment increase over the previous year multiplied by the total transportation aid per pupil in the prior year. The subsequent year's base grant then equals the sum of the base grant and the enrollment adjustment.

The base transportation grant, under Chapter 288, was increased for 15 counties that experienced aggregate enrollment increases between 1980 and 1995. This was a period when the transportation formula did not include annual adjustments for enrollment increases. In addition, for districts that provide transportation for students with disabilities, funding is increased by \$100 annual starting at \$500 for each disabled student in fiscal year 2003 and ending at \$1000 by year 2008.

Targeted Funding Formulas

The other three main grant programs are based on students with special needs that required additional funding in order to meet state education standards. The adequacy study commissioned by Maryland identified the following three groups with special needs: (1) special education students; (2) students from economically disadvantaged backgrounds; and (3) students with limited English proficiency. Each group is provided a "weight" – the proportion of the general education base per pupil cost that would be needed, over and above the base cost, to ensure that a student with special needs could achieve state standards.²³ These weighted formulas generate the largest portion of state aid for special needs students. The weights for each group are:

- Special Education – 1.17
- Students eligible for free and reduced price lunch – 1.10
- Limited English Proficient students – 1.00

Distribution

The basic distribution formula for the three special needs groups is calculated as follows:

$\frac{(\text{Special needs per pupil State aid Amount})(\text{Enrollment of special needs students})}{\text{Local wealth per pupil/Statewide wealth per pupil}}$

After the special needs formula is calculated, there is one more step necessary to proportionally adjust the total amount back to the calculated funding level. In this step, each jurisdiction's per pupil aid as calculated above is then compared to the statutory minimum state contribution. "If

²³ Ibid., Pg. 107

the formula aid is less than the minimum aid, the school system receives the minimum rather than the amount computed through the formula.”²⁴

Unlike the foundation amount, local governments are not required by law to provide a local share for special needs programs to match the state funding. In addition, Chapter 288 does not dictate how funds should be used by local education agencies unlike the grant programs in the past for special needs students. The intent is to have local school systems and the state focus more on student outcomes and less on program specific requirements.²⁵

Compensation

Maryland, unlike Washington State, does not have a statewide salary allocation schedule for teachers. Each district’s salary schedule is locally bargained. However, all 24 districts follow the same overall salary schedule structure based on educational attainment and years of experience. In addition, local salary structure incorporates standard and advanced professional certification levels.

Individual districts provide additional compensation incentives for teachers receiving National Board Certification ranging from \$1,000-\$2,000. At the state level, Maryland provides a stipend of up to \$2,000 a year as a dollar-for-dollar match to local school systems for teachers who earn there National Board Certification.²⁶

Teachers who graduate with a college grade point average of 3.5 or above and are hired by a local school district where eligible for a \$1,000 signing bonus from the state. A teacher receiving the bonus had to work in the school system for at least three years or reimburse the state for the bonus. The Maryland Legislature did not fund signing bonuses for fiscal year 2006.

The state also provides a \$2,000 stipend for classroom teachers who hold an Advanced Professional Certificate and work in schools identified by the State Board of Education as challenge, reconstitution-eligible, or reconstituted schools. Only teachers whose performance is satisfactory qualify for the stipend.²⁷

²⁴ Ibid., Pg 107

²⁵ Ibid., Pg. 107-108

²⁶ Ibid., Pg. 154

²⁷ Ibid., Pg. 155

Massachusetts State Overview

Background & Legal Environment

In 1993, the Massachusetts legislature passed the Education Reform Act. The most significant change that resulted was the creation of the foundation budget, “the amount of funding deemed necessary to provide an adequate education to children in a given school district.”²⁸

Massachusetts based its education reform on three principals:

1. Adequate funding should be available to every school district to provide each child with a quality education.
2. Local communities should each contribute to their schools according to their ability to pay.
3. The state should provide enough funding for each school district to fill the gap between the required local contribution and the funding level needed to provide each child with a quality education.²⁹

This state overview will provide a brief discussion of Massachusetts’ legal environment, school system demographics, revenue sources, and school finance structures.

Before the enactment of the Education Reform Act, Massachusetts’ education finance system was being challenged in McDuffy v. Secretary of the Office of Education. The plaintiffs, students from low-wealth districts, argued that their school districts were unable to provide them with an adequate education because of lack of sufficient funds. In 1993, the Supreme Judicial Court of Massachusetts concluded that the commonwealth was not providing children in less affluent communities with the education promised to all children by the framers of the state constitution. In addition, the court adopted the following learning goals outlined by the Supreme Court of Kentucky in Rose v. Council for Better Education, 790 S. W.2d 186:

1. Sufficient oral and written communication skills to enable students to function in a complex and rapidly changing civilization;
2. Sufficient knowledge of economic, social and political systems to enable student to make informed choices;
3. Sufficient understanding of governmental processes to enable the student to understand the issues that affect his or her community, state and nation;
4. Sufficient self-knowledge and knowledge of his or her mental and physical wellness;
5. Sufficient grounding in the arts to enable the student to appreciate his or her cultural and historical heritage;
6. Sufficient training or preparation for advanced training either in academic or vocational fields so as to enable each child to choose and pursue life work intelligently; and

²⁸ Berger, Noah & McLynch, Jeff. *Public School Funding in Massachusetts: How it works, Trends Since 1993*. Massachusetts Budget and Policy Center. November 2, 2005. Pg. 1

²⁹ Ibid. Pg. 2

7. Sufficient level of academic or vocational skills to enable public school students to compete favorably with public school students in surrounding state, in academics or in job market.”

Ultimately, this decision required the Commonwealth to establish basic standards of education and provide that level of education to all students in the state.

Six years after the passing of the Education Reform Act, the adequacy of funding for students in low-wealth districts was challenged again in Hancock V. Driscoll. In April 2005, the court ruled in favor of the state finding that the governor and the legislature had and continue to make considerable improvements to the education of all students since McDuffy in 1993. This decision marked one of the few times that the courts did not side with the plaintiffs on an adequacy case. However, the court made a point to state that this decision did not insulate the governor or the legislature from future lawsuits regarding the adequacy of funding for education provided by the state if circumstances change.

School System Demographics

According to National Center for Education Statistics’ (NCES) Fall 2002 data, Massachusetts’ K-12 population is 982,989. Comparing to the other states in this study, it has the second largest student population in the group. Breaking-up the student population into race/ethnicity, 8.8 percent are African-American, 11.2 percent are Latino, 4.6 percent are Asian Pacific Islander, and .4 percent are American Indian/Alaska Native. In addition, about 16.3 percent are students with disabilities.

Revenue Sources

According to the National Educational Association, Massachusetts’ total K-12 revenue was \$12.4 billion in the 2004. From the total revenue about \$770 million from federal funds, \$5.1 billion from state funds, and \$6.5 billion was from local funds. **Exhibit 1** shows the percentage break down of these funds.

Exhibit 1

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Like Maryland, Massachusetts’ education reform has changed the state and local mix of funds going to school districts. First, the law established a required minimum local contribution designed to require high-wealth districts to contribute more to their foundation budgets than low-wealth districts. The first year prior to implementation, FY 2003, became the base for future years. Districts deemed in the formula to be making too much effort were allowed to decrease to a more reasonable level that first fiscal year. Second, the state’s role in financing local public education was expanded to include providing a sufficient level of funds to bridge the gap between a district’s local contribution and its foundation budget. The new school aid formula was intended to ensure that every school district received an adequate level of resources regardless of the wealth of the community.

However, there has been a great deal of concern regarding the disparities in required local funding efforts among cities and towns. Complicating this issue is a complex 35 step formula

which is not clearly linked to a community's ability to pay. When the finance formula was first implemented in FY 1994, a community's ability to pay was taken into account by using its 1992 equalized property valuation and its 1989 income per capita. However these statistics were never updated. Instead, increases were based on the "municipal revenue growth factor" which does not recognize changes in property valuations and income over time.³⁰ The result was a system where widely differing contribution requirements were created for towns of comparable wealth.

For several years, Massachusetts policymakers have been working to develop a new school finance formula with the goal of simplifying the calculation and making it more equitable for taxpayers. The Department of Education has developed a possible model where the target local contribution is a measure of aggregate property values and aggregate personal income levels, with each given equal weight.³¹ The new local target would then be updated every year to reflect changes in income and property valuations.

Basic Funding Formulas

Since 1993 few changes have been made to the foundation budget calculation. Chapter 70 spells out in detail how the foundation budget is to be calculated. In addition, though these base ratios and salaries remain in state law, Chapter 70 also requires that these figures be updated each year to reflect inflation. For instance, according to the Department of Education, the rates used in FY 05 are 31 percent higher than those used in FY 94.

The foundation amount is based on nineteen functional categories established by the Superintendent in 1993 and ten different student classifications. The first step in calculating the foundation amount is to classify students into one of the following categories;

1. regular education or special education pre-kindergarten
2. regular or special education half-day kindergarten
3. regular or special education full-day kindergarten
4. regular or special education elementary (grades 1-5)
5. regular or special education junior high/middle (grades 6-8)
6. regular or special education senior high (grades 9-13)
7. limited English pre-kindergarten
8. limited English half-day kindergarten
9. limited English (grades 1-12)
10. vocational education (grades 9-13)³²

In determining a district's foundation budget, its headcount in each of the above categories is multiplied by a cost rate that is set by statute and reflects annual inflation. **Exhibit 2** on the following page illustrates the foundation budget per pupil rates for FY 05. As shown in the **Exhibit 2**, each student generates a specific cost in each functional category with the upper grades generating higher costs than the lower. For example, Junior High/Middle School student

³⁰ Local and State Funding for Public Schools: Restoring the Link with Community Wealth. April 2005.
http://finance1.doe.mass.edu/chapter70/formula05_1.doc

³¹ School Finance: Chapter 70 Program

³² Hatch, Roger & O'Donnell, Rob. School Finance: Chapter 70 Program

generates \$65.46 under the Athletics (**category #13**) category but each high school student generates \$261.83.³³

Targeted Funding Formulas

In addition to the categorical cost rates, there are three cost increment categories that are intended to reflect the additional resources needed to educate special education and low-income students.

1. Assumed in-district special education enrollment is set at .375 times foundation enrollment (not including pre-kindergarten and vocational pupils) and .0475 times the vocational enrollment (**column G**)
2. Assumed out of-district special education enrollment is set at one percent of total foundation enrollment (again not including pre-kindergarten and vocational pupils) (**column H**)
3. Low-income students are reported on the basis of eligibility for free and reduced lunch programs. Unlike foundation enrollment, low-income headcounts are assigned to the district where the pupils are actually enrolled (and where the extra cost occur), even if they are tuitioned-in from another district. (**columns M and N**)³⁴

In addition to the resources generated from the special education increment category, there is also the Special Education Reimbursement Fund (Circuit Breaker) Program. The program was enacted in 2000 and first implemented in FY 2004 with the purpose of reimbursing school districts for high cost special needs students.³⁵ According to state law, school districts are reimbursed 75% of the cost above four times statewide foundation.³⁶ The reimbursement is subject to legislative appropriation.

³³ Ibid

³⁴ Ibid.

³⁵ Report on the Implementation of the Special Education Reimbursement (“Circuit Breaker”) Program. January 24, 2005. http://finance1.doe.mass.edu/seducation/04cb_report.html

³⁶ Ibid.

Exhibit 2

Massachusetts Department of Education Office of School Finance

FY05 Foundation Budget Per Pupil Rates

	(A) Pre-School	(B) Kindergarten Half Time	(C) Kindergarten Full Time	(D) Elementary	(E) Jr High/ Middle	(F) High School	(G) Special Ed In School	(H) Special Ed Tuitioned Out	(I) LEP PK	(J) LEP K Half	(K) LEP K Full to Grd 12	(L) Vocational	(M) Low Income Elementary	(N) Low Income Other
1) Foundation Enrollment														
2) Teaching Salary	1,130.63	1,130.63	2,261.27	2,261.25	1,989.91	2,926.33	6,218.46	0.00	1,658.26	1,658.26	3,316.51	4,974.77	1,492.43	1,492.43
3) Support Salary	360.67	360.67	721.34	721.34	1,243.69	208.94	3,780.82	0.00	360.67	360.67	721.34	208.94	0.00	0.00
4) Aides' Salary	70.69	70.69	141.39	141.39	23.56	9.43	1,472.79	0.00	70.70	70.70	141.39	9.43	0.00	0.00
5) Principals' Salary	121.75	121.75	243.50	243.50	284.09	284.09	0.00	0.00	121.75	121.75	243.50	284.09	0.00	0.00
6) Clerical Salary	66.61	66.61	133.22	133.21	133.21	133.21	484.39	484.39	66.61	66.61	133.21	133.21	0.00	0.00
7) Health Salary	32.73	32.73	65.46	65.46	49.09	49.09	0.00	0.00	32.73	32.73	65.46	49.09	0.00	0.00
8) Central Salary	93.34	93.34	186.68	186.68	186.68	186.68	1,400.14	1,400.14	93.34	93.34	186.68	210.03	0.00	0.00
9) Custodial Salary	98.11	98.11	196.22	196.23	212.74	206.27	657.85	0.00	132.83	132.83	265.65	341.03	98.19	98.19
10a) Salary Benefits	255.77	255.77	511.54	511.54	486.38	467.29	2,155.32	197.94	321.75	321.75	643.50	724.86	186.63	186.63
10b) Other Benefits	27.23	27.23	54.46	54.47	51.79	49.76	229.51	21.08	34.26	34.26	68.52	114.86	19.87	19.87
11) Expanded Program	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	497.48	0.00
12) Professional Development	44.73	44.73	89.47	89.48	97.01	94.06	299.98	0.00	60.57	60.57	121.14	155.51	44.77	44.77
13) Athletics	0.00	0.00	0.00	0.00	65.46	261.83	0.00	0.00	0.00	0.00	0.00	261.83	0.00	0.00
14) Activities	0.00	0.00	0.00	32.73	45.82	58.91	0.00	0.00	16.37	16.37	32.73	58.91	0.00	0.00
15) Maintenance	129.51	129.51	259.03	259.02	280.81	272.28	868.36	0.00	175.33	175.33	350.66	594.17	129.61	129.61
16) Special Education Tuition	0.00	0.00	0.00	0.00	0.00	0.00	0.00	17,673.52	0.00	0.00	0.00	0.00	0.00	0.00
17) Miscellaneous	53.06	53.06	106.12	106.11	106.11	106.11	552.46	28.80	53.06	53.06	106.11	106.11	0.00	0.00
18) Books and Equipment	163.64	163.64	327.29	327.29	327.29	523.66	261.83	0.00	163.65	163.65	327.29	916.40	0.00	0.00
19) Extraordinary Maintenance	86.34	86.34	172.68	172.68	187.21	181.51	578.91	0.00	116.89	116.89	233.77	300.11	86.40	86.40
20) Total	2,734.81	2,734.81	5,469.67	5,502.38	5,770.85	6,019.45	18,960.82	19,805.87	3,478.77	3,478.77	6,957.46	9,443.35	2,555.38	2,057.90

Source: Massachusetts Department of Education

Compensation

The foundation budget also includes formulas for each enrollment category to determine how many staff would be needed and what their salary level should be. The pupil to staff ratios and salary levels for FY 005 are illustrated in **Exhibit 3**. For example, in FY05 the foundation budget assumes that at the elementary level, a district would need one teacher for every 22 pupils, at a salary level of \$49,748. For every 333 pupils, the district would need one principal, at a salary of \$81,167.³⁷

The final calculation in the foundation budget is the “**wage adjustment factor**” which gives a district credit for having higher costs if it is located in a geographic area where average wages are higher than in other areas of the state. The wage factor is calculated using average salary data from the state’s Department of Employment. The factor reflects the town’s own average wage, but is much more heavily weighted to the average of the “labor market area” the town is located in. Therefore, a district’s wage factor is a percentage that is applied to salary items in the foundation budget. The distance above or below state average is divided by three and conflated with the town’s own factor.³⁸

Exhibit 3

Pupil to Staff Ratios in the Foundation Budget

	Teaching	Support	Aids	Principals	Clerical	Health	Central	Custodial
Pre-K	44	138	167	667	364	1000	1000	334
Kindergarten	44	138	167	667	364	1000	1000	334
Half Time								
Kindergarten Full Time	22	69	84	333	182	500	500	167
Elementary	22	69	83	333	182	500	500	167
Jr High/Middle	25	40	500	286	182	667	500	154
High School	17	238	1250	286	182	667	500	159
Spec. Ed. In School	8	13	8		50		67	50
Spec. Ed. Out of District					50		67	
Limited English	15	69	83	333	182	500	500	123
Vocational	10	238	1250	285	182	667	444	96
Low Income Elem	33							333
Low Income Other	33							333
FY05 Salary Level	49748	49748	11782	81167	24219	32729	81167	32729

Source: Massachusetts Department of Education

³⁷ Hatch, Roger & O'Donnell, Rob. School Finance: Chapter 70 Program

³⁸ Ibid

Professional Development

One of the more significant changes to Chapter 70 occurred in fiscal year 1996 when the state budget required that school districts spend a specified amount from their foundation budget on professional development. That fiscal year the required amount was set at \$25 per foundation pupil. The amount increased each fiscal year after that until 2000 when it reached \$125.³⁹ The funds set aside for professional development can be used for expenses such as:

1. Salaries for full-time directors of professional development;
2. Salaries to teachers, librarians, guidance counselors, etc. who participate in-service days where at least 50 percent of the time is spent on professional development;
3. Supplies and materials;
4. Dues and subscriptions; and
5. Travel expenses for staff.⁴⁰

Beginning in fiscal year 2004, this requirement was eliminated and has not been reinstated.

In addition, Massachusetts has established an incentive program for teachers to obtain their National Board Certification and mentor other teachers. The Department of Education in 2005 will award \$2,500 bonuses to 285 National Board Certified teachers who mentor one or more apprentice teachers (in their first year of teaching). The mentor teacher must meet with the apprentice frequently and regularly throughout the academic year and participate in at least one of the following activities:

- Observation of the Apprentice teacher by the Master teacher,
- Observation of the Master teacher by the apprentice teacher,
- Co-teaching a class,
- Curriculum planning,
- Lesson planning.

³⁹ Hatch, Roger & O'Donnell, Rob. School Finance: Chapter 70 Program - Professional Development Spending in Massachusetts Public School Districts. <http://finance1.doe.mass.edu/chapter70/PDS.html>

⁴⁰ Ibid

North Carolina: K-12 Funding Profile

Background and Legal Environment

Over the last decade, the North Carolina legislature has approved important accountability reform measures to the state's public school finance structure. In comparison to other states in our review, North Carolina was the first to implement a statewide standards based- accountability reform program aimed at improving student performance. In 1993, as part of earlier accountability reforms, the state enacted end of grade and end-of-course, as the performance measurement. In the mid-1990s following the state's initial accountability reform efforts, a legislative directive led to the passage of two key reform measures: the School-Based Management and Accountability Program of 1996 (ABC's of Public Education) and the Excellent Schools Act of 1997. The ABC's of Public Education, which stands for A) Accountability B) Basic skills C) Local control, is the central piece of accountability reform. The ABC's advanced the movement of funds to local school districts and held districts accountable for gains in student achievement. In addition, the Excellent Schools Act centered on improving teacher standards by increasing accountability through implementing pay based incentives, strengthening evaluations and providing two years of paid mentoring for new teachers.

The ABC's gave LEA's and in many cases individual schools the power to shift funds among line item programs. Local control at the individual school level allows schools flexibility to transfer funds to categories where they are most needed. For example, schools frequently move funds from teaching assistants (dollar allotments) to teachers (dollars for K-3 teachers). The performance based pay structure rewards certified instructional staff and teacher assistants that successfully help students reach standards.

Despite education reform, the state's education finance system has been tied up in legal challenges for nearly the last decade. The adequacy and equity of North Carolina's education finance system has been challenged. In 1987, the plaintiff's claim that the funding system was unconstitutional was rejected. (see *Britt v. North Carolina State Board of Education*, 361 S.E.2d 71 upholding the lower court's decision to dismiss the plaintiff's claim). Ten years later in *Leandro v. State*, 346 N.C. 336 (N.C. 1997), plaintiffs challenged not only the equity, but the adequacy of the state's education finance system.

On the equity question, the *Leandro* court held that the equal educational opportunities clause of the state constitution does not require substantially equal funding or educational advantages in all school districts. On the adequacy question, the court declared that the

right to education in the state constitution “requires that all children have the opportunity for a sound basic education.” The court further delineated three factors to be used in determining whether children had received a sound, basic education: (1) “educational goals and standards adopted by the legislature”; (2) “the level of performance . . . on standard achievement tests”; and (3) “the level of the state’s general educational expenditures and per-pupil expenditures.” The *Leandro* court did not directly rule on the adequacy question, but rather sent the case back to the trial court to determine whether the NC education finance system was inadequate based on the three factors the court spelled out. Shortly after the *Leandro* decision, several plaintiffs dropped out of the lawsuit, and the case was renamed for one of the remaining plaintiffs – *Hoke County Board of Education* - before the trial on the adequacy question.

In *Hoke County*, the court held that student’s school districts were denied their state constitutional right to opportunity to obtain a sound, basic education. The court found that students’ school performance, dropout rates, graduation rates, need for remedial help, inability to compete in job markets, and inability to compete in collegiate ranks demonstrated their failure to obtain sound basic education. And further, that such failure was attributable to action and inaction on the part of the state with respect to its allocation of educational resources. After ruling on the adequacy question, the Supreme Court directed the trial court to develop a proper remedy.

Courts are currently determining what judicial remedies for such failures, if any, are available, while simultaneously calling upon the legislative and executive branches to ensure that all children are afforded a “sound, basic education” set forth in *Leandro*.⁴¹

School Systems Demographics

North Carolina enrolls 1,335,954 pre-K-12 students.⁴² The majority of these students are white (59.2%), followed by African American students (31.4%), Hispanic students (5.9%), Asian American (2.0%) students and Native American students (1.5%).⁴³ 14.4% of students are students with disabilities as a percent of public school enrollment. The state has 87,677 public school teachers.⁴⁴

The state has 115 school systems or Local Education Agencies (LEAs). The LEAs are operated by the state’s 100 counties; in some cases counties have two or three LEAs, a City and County system that operate separately. According to the North Carolina Department of Education’s website there were 2,286 schools in the 2004-2005 school

⁴¹ *Hoke County Bd. of Educ. v. State*, 599 S.E.2d 365 (N.C. 2004)

⁴² NCES Fall 2002 data (Table 66. Teachers, enrollment and pupil/teacher ratios in public elementary and secondary school or jurisdiction: Fall 1997 to fall 2002)

⁴³ NCES Fall 2002 data (Table 42. Percentage distribution of enrollment in public elementary and secondary schools, by race/ethnicity and state or jurisdiction: Fall 1992 and fall 2002)

⁴⁴ NCES Fall 2002 data (Table 66. Teachers, enrollment and pupil/teacher ratios in public elementary and secondary schools, by state or jurisdiction: Fall 1997 to fall 2002)

year; 2,189 regular schools, 97 charter schools.⁴⁵ 1,729 (75.6%) serve elementary (grades P-K through 8) students and 359 (15.7%) serve secondary students (grades 9-12).

Of the six states that we are studying, North Carolina spends the least per pupil (\$7,350).⁴⁶ The state ranks 39th behind Washington State at 30th.

According to the Education Research Center⁴⁷ North Carolina ranks 45th out of 50 states on the wealth-neutrality score meaning that per pupil funding levels differ significantly in wealthier districts in comparison to the state's poorer districts. The state's low wealth neutrality score can be attributable to its funding formula. Unlike Oregon, which adjusts state funding based on available local funds, North Carolina provides a flat grant to LEAs. In addition to the flat grant, there are no caps on local funding. Even with supplemental funding for "low wealth" districts, the state struggles with a significant gap in student funding between wealthy and poor districts remains.

Revenue Sources

Like Washington, North Carolina allocates funding for certified instructional staff and other costs to LEAs based on student enrollment or Average Daily Membership (ADM).⁴⁸

As in many states, the Department of Public Instruction builds the budget based on student growth and submits it to the Legislature for appropriation annually. Following the legislature's approval of the education budget, the School Allotment Section takes over and allocates money into categories based largely on projected ADM. The School Allotment Section takes the budget and calculates the percentage amounts LEAs are supposed to receive based on their ADM and approved formulas.

For the 2001-2002 school year, 64.5% of state revenue was from state sources, 27.1% from local sources and 8.5% from federal sources.⁴⁹

State Funds

North Carolina provided 64.5% of state funding in the 2001-02 school year and currently ranks first in percentage of state revenues allocated to K-12 spending in our review.⁵⁰ In contrast to other states in the south and midwest, North Carolina has a long history of state support that dates back to the 1933 Machinery Act when the state took over the

⁴⁵ 2004-2005 Facts and Figures, North Carolina Public Schools, <http://www.ncpublicschools.org/fbs/factsfigs.htm>

⁴⁶ "Rankings and Estimates: A report of School Statistical Update," National Education Association, Washington D.C. 2005, pg 5

⁴⁷ ⁴⁷ Education Week, Quality Count at 10: A Decade in Standards-Based Education. January 5, 2006

⁴⁸ Griffith, Michael, "State Education Funding Formulas and Grade Weighting", Education Commission of the States, May 2005, pg 1

⁴⁹ "Revenues for public elementary and secondary schools, by source and state or jurisdiction: 2001-02" produced by NCSL, 2004 Digest of Education Statistics, Table 154.

⁵⁰ "Revenues for public elementary and secondary schools, by source and state or jurisdiction: 2001-02" produced by NCES, 2004 Digest of Education Statistics, Table 154.

responsibility for funding basic education. Currently, 41.2% of the general fund is earmarked for education. The state has no specific tax revenue source earmarked for K-12 education, instead appropriations come from the State Public School Fund, which is appropriated annually from the General Fund.⁵¹ The General Fund is derived from state tax funding and other funding sources.

According to the North Carolina Department of Education, the state education revenue totaled \$6.86 billion for the 2005-2006 school year.

Local Funds

In North Carolina, 27.1% of funds are derived from local sources. Although all counties provide some assistance through local taxation, no support is required on the local level. Unlike Washington, which places statutory limits on the amount of revenue districts can raise, North Carolina has no limitation on the amount of revenue LEAs can generate. Property and sales taxes are the principal sources of local tax revenue in North Carolina.

Federal Funding

North Carolina Schools received \$738 million dollars of federal funding (excluding child nutrition) in the 2005-2006 school year. In the 2005-2006 school year federal funds received included: Title 1 and Title V (31.24%), Child Nutrition (28.54%), IDEA VI-B Handicapped & Preschool Handicapped (26.46%), Other (11.70%) and Vocational Education (2.05%). In the 2004-2005 school year 71.7% of these funds were allocated for salary/benefits, 14.9% for Supplies/Materials/Equipment, 5.9% purchased services, 4.4% workshop expenses and 3.1% other.

Basic Funding Formula

The basic unit of allocation is average daily membership (ADM). ADM is based on the total days in membership for all students in individual Local Education Agencies (LEA) divided by the number of school days in the term.⁵² ADM is based on the higher of (a) ADM for the previous year (b) projected ADM for the current year. The ADM funding provides the basis for funding which is allocated to positional, dollar and categorical allotments.

Positional allotments fund teachers, instructional support personnel and school building administration. Districts receive funds for position allotments based on the established salary schedule. Each school system will have a different average salary base for certified personnel based on the certified personnel's level of experience, education and performance.

⁵¹ Testerman, Jane and Calvin Brown, "North Carolina", pg 5

⁵² Information Analyst, Division of School Business, "North Carolina Department of Public Instruction", February 2006, pg 4

Table 1: Teacher Allotment Ratios FY 2005-2006

2005-2006 Grade Span	Teacher: Student Allotment Ratio	Class-Size Average Ratio for the LEA	Individual Class-Size Maximum
K-3	1 (teacher):18 (student)	1: 21	1:24
4-6	1:22	1:26	1:29
7-8	1:21	1:26	1:29
9	1:24.5	1:26	1:29
10-12	1:26.64	1:29	1:32

Source: Information Analysis, Division of School Business, North Carolina Department of Public Instruction

The total number of positions allotted for the 2005-2006 school year were 64,366. In addition, 100 positions were allocated for Math/Science/Computer teachers and 25.5 were allotted for High Priority Schools. With these additions, the total number of positions allotted was 64,491.5.

LEAs use ***Dollar Allotments*** to hire teaching assistant and central office administration and purchase goods such as textbooks, classroom materials/supplies/equipment.

LEAs use ***Categorical Allotments*** to purchase services necessary to address the needs of specific populations, including at-risk children and children with disabilities. Categorical allotments fund personnel such as teachers, teacher assistants, instructional support personnel or to purchase supplies and materials. Categorical allotments include Academically or gifted students, at-risk students, children with disabilities, driver education, improving student accountability, Limited English Proficiency (LEP), Low-Wealth Supplemental Funding, School Technology, Staff Development, Transportation and Vocational Education.

Targeted Funding Formulas

Children with Disabilities The state provides \$2,935.60 per funded headcount. Headcount equals the lesser of 12.5% of the allotted ADM or the April 1st child count.

Small County Supplemental Funding The state has small county supplemental funding to assist counties. Counties that qualify for funding are 3,239 ADMs or counties with between 3,230 and 4,080 ADMs whose adjusted property tax base is below the state average. The formula for small county funding is the sum of four smaller formulas.

Low-Wealth Supplemental Funding In 1991-1992 the North Carolina General Assembly established low-wealth supplemental funding to schools in low-wealth counties or those eligible LEAs whose capacity to generate local revenue is below 100% of the state average. The formula used to determine whether a county is eligible is based on a percentage of each of the following: Anticipated Total County Revenue (40%), Tax Base Per Square Mile (10%) and the county's Average Per Capita Income (50%). 80 out of 115 LEAs are eligible for low-wealth supplemental funding based on this formula. LEAs eligible have pro-rated funds based on available funding. The current formula is not fully funded: the amount needed to fully fund the formula in 2005-2006 is \$175,138,329, although only \$133,244,938 was appropriated. Essentially while the state does not cap the amount of revenue that local district can raise, "low wealth" funding aims to raise the revenue of low wealth districts, thus equalizing funding across districts.

Limited English Proficiency LEA's that qualify for LEA funding must have either 20 students with limited English Proficiency or at least 2 ½ of the ADM of the LEA. LEA's that qualify receive the minimum of 1 teacher assistant position.

Compensation

Recently, North Carolina has been recognized for gains in teacher salaries, although the state still falls below the national average. According to the National Education Association in the 2004-2005 school year the state ranked 27th in teacher salary for the estimated average compensation for teachers (\$43,313).⁵³ North Carolina is ranked below Washington State's average teacher compensation (\$45,712) and the national average (\$46,726).

Under the requirements of the ABC's of Public Education salaries for teachers and other certified personnel are allocated through a statewide salary structure. Base salary is determined on a statewide salary structure based on years of experience and educational attainment (Bachelor's, Masters and Doctorate). Additional pay is provided for new teachers, extended contract, longevity pay, supplemental pay, ABC and Retention Bonuses, mentor pay and other assignments. Local districts can provide additional pay for teacher salaries to the extent that LEAs can raise local tax revenue for that purpose.

⁵³ Rankings and Estimates: A Report of School Statistics Update" National Education Association, Washington. D.C, 2005, p.3.

Average Teacher Compensation—FY 2005-2006

Category	2005-06	2004-2005
Base Salary	37,915	37,388
New Teacher Orientation	18	16
Extended Contract	7	19
Tutor	232	228
Longevity Pay	939	972
Supplemental Pay	2,967	2,860
ABC and Retention Bonuses	901	949
Workshop Participant	26	21
Annual Leave Pay	269	361
Mentor Pay	118	107
Other Assignments	346	347

ABCs and Retention Bonuses. As part of the state's education reform measures North Carolina has implemented bonuses based on performance. In addition to the base salary, teachers, other certified personnel and teacher assistants can earn group-based bonus rewards if their schools attain expected or high growth in student achievement. Growth is based on a formula that calculates expected gains for an individual cohort of students. Up to \$1,500 plus benefits are awarded to certified instructional staff and up to \$500 is awarded to teaching assistants in schools that attain "high growth" in student achievement. Certified instructional staff and teacher assistants are awarded up to \$750 plus benefits and \$375 plus benefits in schools that reach expected growth, respectively.

In addition to group-based performance, North Carolina provides professional development under the *Excellent Schools Act of 1997*. The state provides incentives for those who have mastered advanced competencies and who obtain certification from the National Board of Professional Teaching Standards (NBPTS). Experienced teachers who have mastered the state advanced competencies certification receive a 10% increase in salary. Experienced teachers (with more than 3 years of experience) who successfully earn certification from the NBPTS earn a 12% increase in base salary continuing for the life of the certificate. The state supports teachers in the certification process by paying for their assessment fee and providing three days of paid leave to prepare for certification.

Mentor Pay North Carolina has two types of mentor pay. One type is the Full-time mentor Program which LEAs submit a detailed mentor plan and upon approval are allotted a 3-year average mentor expenditures. The second type is regular or part-time mentor pay where Mentor teachers are compensated at a rate of \$100 per month. Teachers with a minimum of three years of teaching experience are eligible to become mentors. Funding from both types can be used to provide mentorship to newly certified teachers, entry-level instructional support personnel who have no previous teaching experience and second-year teachers who were assigned a mentor in their first year of teaching.

Longevity Pay. The statewide salary structure includes increases for teachers at year three and year four of their career service. Permanent or part-time certified personnel receive annual longevity pay after completing 10 years of state service.

Professional Development In comparison to other states in our review, North Carolina is nationally recognized for supporting professional development efforts to improve teacher quality. The state finances professional development for teachers in all districts. Unique to the state is the number of programs that provide professional development for teachers that teach in in-demand subjects such as mathematics, science and special education.

Oregon: K-12 Funding Profile

Background and Legal Environment

Oregon's public school financing system has changed dramatically through a series of voter approved ballot measures from 1987 to 2000. As a result of these measures, the Legislature increased state funding in 1991 and responsibility for financing Oregon's K-12 system shifted primarily from property tax revenue raised in local districts to the state.

In 1987, Oregon voters approved a constitutional amendment, known as the "safety net," which provides that, when local funding is inadequate to meet current operating expenses, school districts are authorized, without local voter approval, to levy property taxes in an amount not more than what was levied for operating purposes in the preceding year.⁵⁴

Three years later, the voters approved another constitutional amendment, known as "Measure 5," which imposes progressively more stringent limitations on the rates at which local districts may tax real property.⁵⁵ Measure 5 also provides that the state legislature must, for a period of five years, "replace from the state's general fund any revenue lost by the public school system because of the limitations."⁵⁶

Measure 5 effectively shifted the responsibility for funding education from the local districts to the state. The legislature adopted an equalization formula in 1991 to ensure equal distribution across districts of state funding. After the initial phase-in of the formula, the state provided the primary source of funding.

Measure 21, approved in 1995, established the education endowment fund, and dedicated 15 percent of Oregon Lottery proceeds to the fund. One year later, voters approved Measure 47 which imposed additional property tax limitations and further elevated the state's school financing responsibility.⁵⁷

With the state's new responsibility for funding education, it became important to implement a formula that would equalize funding across districts. As a result, the Oregon legislature passed the School Funding Equalization formula in 1991. This funding formula mandates equalization of funding across the state's districts.

⁵⁴ Or. Const., Art. XI, § 11(a).

⁵⁵ Under Measure 5 non-school taxes on any parcel of property cannot exceed \$10 per \$1000 of real market value and school taxes cannot exceed \$5 per \$1000. McNamara, Frank. "Oregon", Confederation of Oregon School Administrators.

⁵⁶ Or. Const., Art. XI, § 11(b)(5).

⁵⁷ Voters approved Measure 50 in 1997 as referred by the legislature to "fix" elements of the poorly written Measure 47. The rate limits created by Measure 50 replace Oregon's traditional levy system, which used the real market value (RMV) to assess individual properties. Under Measure 50, the assessed value (AV) of homes may be less than their RMV and taxes will be limited by the 3% value growth cap.

Oregon's funding system has not been successfully challenged in court and has not been found contrary to provision in the Oregon Constitution requiring a uniform system of schools or Oregon's Equal Protection Clause.

In *Olsen v. State*, 276 Or. 9 (1976), Plaintiffs unsuccessfully challenged a property tax based school financing system claiming disparate funding for different school districts. The court held that the provision in the Oregon Constitution requiring a uniform system of schools is complied with if the state requires and provides for a minimum of educational opportunities in the district and permits the districts to exercise local control over what they provide above the minimum.

The reasoning in *Olsen* has been questioned often, most recently in *Coalition for Equitable School Funding v. Oregon*, 311 Or. 300 (1991). In that case, the Oregon Supreme Court held that the matter had been rendered academic by the enactment of the "safety net" and Measure 5, both of which, in effect, "constitutionalized" the practice of financing public schools with local property taxes. As a result, the court held the uniform school provisions no longer can be read to forbid disparities in funding that result from financing public schools with local property tax revenues.

Following adoption of Measure 5, the legislature enacted a "phased-in" funding equalization law. This scheme of public school financing was challenged but upheld by the Oregon appellate court in *Withers v. State*, 133 Or.App. 377 (1995), and *Withers v. State*, 163 Or. App. 298 (1999), review denied 331 Or. 284 (2000). The Oregon Court of Appeals held that the legislature made a rational choice to implement reallocation of public school funding incrementally rather than immediately.

On March 21, 2006 the Oregon School Funding Defense Foundation filed a lawsuit again challenging the validity of Oregon's current public school financing system.

School System Demographics

Oregon enrolls 554,071 Pre-K-12 students.⁵⁸ The majority of these are Caucasian students (78.1%), followed by Hispanic (12.5%), Asian American (4.2%), African American (3.0%) and Native American (2.2%) students.⁵⁹ 13.7% of these are students with disabilities.⁶⁰

In the 2004-2005 school year, 16,009 children were eligible for Oregon's Head Start or pre-kindergarten program. Of those eligible 9,608 or 60% of children were served. The state has 60,564 or 11% of students for whom English is not their primary language. In

⁵⁸ NCES Fall 2002 data (Table 66. Teachers, enrollment and pupil/teacher ratios in public elementary and secondary school or jurisdiction: Fall 1997 to fall 2002)

⁵⁹ NCES Fall 2002 data (Table 42. Percentage distribution of enrollment in public elementary and secondary schools, by race/ethnicity and state or jurisdiction: Fall 1992 and fall 2002)

⁶⁰ NCES Fall 2002 data (Table 66. Teachers, enrollment and pupil/teacher ratios in public elementary and secondary schools, by state or jurisdiction: Fall 1997 to fall 2002)

the 2004-2005 school year 71,398 or 12.9% of students receive special education funding and 231,141 or 42.5% of students qualified for free and reduced priced lunch.⁶¹

Adjusted for the cost of educating different types of students, Oregon's average per pupil expenditure is \$7,350 per student. Comparative to other states in our review Oregon ranks 31st in Per Pupil Expenditure falling behind Massachusetts, Maryland and Colorado.⁶² While the state's funding formula successfully equalized funding across districts, it did not significantly raise the average amount of funding spent per student

According to the EPE Research Center Oregon scores slightly below average in the area of wealth neutrality. Therefore, despite Oregon's equalization formula, there is still variation between wealthy and low-wealth districts.⁶³

Revenue Sources

Oregon utilizes a modified foundation/base formula.⁶⁴ Similar to other states in our review like Maryland, Kentucky and Colorado, Oregon's funding formula uses a base-funding amount. Oregon allocates funding for school districts and Educational Service Districts based on an equalization formula. To achieve equalization the formula makes adjustments in the amount of state aid provided to districts based on available local funds. If local revenues are high, the formula decreases state aid; if revenues are low, the formula increases state aid to achieve equalization. To make the formula accessible, the unadjusted base funding is set at \$4,500 per student. Each district's total revenue per student depends on the base funding and the cost factors. For example, in the case of lower-wealth district that generates \$1000 per local property tax revenue, the state will provide \$3,500 to equalize the base funding.

State Funds

Since the phase-in of the equalization formula, state supported school funding in Oregon has remained high and in the 2001-02 school year was equal to 55.9% of total funding.⁶⁵ State support of school districts and ESDs is provided through the State School Fund. The State School Fund sources include the General Fund and to a lesser extent Lottery Funds.⁶⁶ The State School Fund makes payments to the districts on a set payment schedule. In the 2005-2007 biennium budget the State School Fund was allocated into five separate programs accordingly: state equalization formula (2.4 billion) the virtual

⁶¹ Oregon Department of Education, "2004-2005 Statewide Report Card", pg 56, see <http://www.ode.state.or.us/data/annreportcard/rptcard2005.pdf>

⁶² Rankings and Estimates: A Report of School Statistics Update," National Education Association, Washington D.C., 2005, pg 5.

⁶³ Quality Counts at 10: A Decade of Standards-Based Education, Editorial Projects in Education (EPE) Research Center, January 2006, pg 2

⁶⁴ Griffith, Michael, "State Education Funding Formulas and Grade Weighting", Education Commission of the States, May 2005, pg 1

⁶⁵ "Revenues for public elementary and secondary schools, by source, state or jurisdiction: 2001-02" produced by NCES, 2004 Digest of Education Statistics, Table 154.

⁶⁶ In the 2005 school year the General Fund portion constituted 92.3% of the total and lottery funds constituted 7.7%.

school (1 million), small high schools (2.5 million) and state special education (9 million).⁶⁷

Local Funds

Even with the passage of Measure 50 in 1997, local revenue is a significant share of Oregon's K-12 budget. In the 2001-2002 school year local revenues equaled 35.7% of operating revenue.⁶⁸ Local revenue stays in the district where it is collected. However, for the purposes of the equalization formula, local revenue is treated as a state resource. Because Oregon has no sales tax, the major source of local revenue comes from property taxes generated through the local districts. Tax levy increases are limited by a cap of \$5 per \$1,000 of assessed value; most school districts have reached this levy lid.

How percentage of funds has changed

Prior to 1991 K-12 Education was funded primarily through property taxes on the local level and local school districts determined the size of K-12 budgets. A property tax-based funding model led to a wide variation in available property tax revenue⁶⁹ and spending per student.⁷⁰ While the state share of funding oscillated throughout the 1960s and 1970s, state funding was minimal throughout the 1980s and 1990s constituting approximately 30% of operating funds in 1990. State support functioned to provide flat grants, help offset differences in local funding per student and to provide transportation funding. With the implementation of the new equalization formula, the share of state and federal funds reversed and state funds became the primary source of funding.

Basic Funding Formula

The **K-12 equalization formula** calculates equalized amounts of funding for each school district. The equalization grant or formula revenue is equal to the general purpose grant + transportation grant + facility grant.⁷¹

K-12 Equalization Formula

Equalization Grant or Formula Revenue	General Purpose Grant	Transportation Grant	Facility Grant
State School Fund + Local Revenue	Students (ADMw) x \$4,500 Adjusted by Teacher Experience	70% of Transportation Costs	Up to 8% of Construction Costs

⁶⁷ Legislative Revenue Office, 2005 School Finance Legislation, October 2005

⁶⁸ "Revenues for public elementary and secondary schools, by source, state or jurisdiction: 2001-02" produced by NCES, 2004 Digest of Education Statistics, Table 154.

⁶⁹ School district per-pupil property values varied from about \$19,000 to about \$203,000 and tax rates varied from about \$9 per thousand dollars of value to about \$20 per thousand in the 1970s.

⁷⁰ Funding per student varied among districts from \$674 to \$1,795 in the 1970s

⁷¹ "K-12 and ESD School Finance, State School Fund Distribution." Legislative Revenue Office, State of Oregon. November 2001. pg 6

Source: K-12 and ESD School Finance, State School Fund Distribution.” Legislative Revenue Office, State of Oregon, pg 6

Equalization Grant or Formula Revenue

The equalization grant or formula revenue is the sum of the district’s State School Fund and local revenue. For the 2005-2007 biennium state appropriations equaled approximately \$5.24 billion and local revenue was equal to approximately \$2.27 totaling \$7.5 billion dollars in formula revenue.⁷² The formula revenue is then divided by the weighted student count (approximately 660,000) to obtain the biennial total spending per student. The number should approximately equal the pre-adjustment base funding of \$4,500.

The equalization grant or formula revenue is then adjusted for three cost factors including teacher experience, the transportation and school facilities grant.

Teacher Experience is a factor on which additional pay is based.⁷³ The funding formula accounts for increases in teacher salaries through an adjustment to the basic funding formula. The formula increases the base funding per student by \$25 for each year the districts average teacher experience surpasses the statewide average and decreases the base funding by \$25 each year the districts average teacher experience falls short of the base funding.

The **transportation grant** accounts for 70% to 90% of total transportation costs in certain districts. Transportation costs are those attributed to transporting students from home to school.⁷⁴ The districts with the highest transportation needs receive up to 90% reimbursement. The second group receives up to 80% reimbursement.

School Facilities Grant is 8% of the total construction cost for new school buildings⁷⁵ excluding land. Facilities grants cannot exceed \$17.5 million per biennium.

General Purpose Grant

The general purpose grant equals the weighted student count multiplied by the pre-adjustment base funding per students set at \$4,500 per weighted student. This base number is adjusted up or down depending on teacher experience and the “available funds” or state and local appropriations. The number of students and their associated weights largely determine district formula revenue. In the 2005-2007 biennium 95.2% of the General Purpose grant is used as formula revenue for the districts and the remainder or 4.4% is allocated to ESDs.

⁷² Legislative Revenue Office, 2005 School Finance Legislation, “2005 School Finance Legislation, Funding and Distribution. October 2005

⁷³ The formula which measures statewide average teacher does not include principals, counselors, etc.

⁷⁴ If over one mile from elementary school or 1.5 miles from high school. K-12 and ESD School Finance, State School Fund Distribution.” Legislative Revenue Office, State of Oregon. November 2001. pg 6

⁷⁵ New buildings include additions and portable classrooms, but exclude buildings not used for classrooms

General Purpose Grant= Students (ADMw) x \$4,500 Target Adjusted by Teacher Experience x Available funds

Source: K-12 and ESD School Finance, State School Fund Distribution.” Legislative Revenue Office, State of Oregon, pg 5

Weighted Student Count based on enrollment is average daily membership (ADMw). The ADM becomes ADMr when accounting for resident student population, with kindergarten students accounting for ½ ADM.⁷⁶ The basic unit of allocation (ADMr) is then adjusted for the cost of educating different types of students. ADMw or weighted average daily membership is the ADMr adjusted for educating special education and at-risk students in accordance with the chart below.

Student Cost Weights

Special Education and At Risk ADMw	Weight	Total
Special Education	1.00	2.00
English as a Second Language	.50	1.50
Pregnant and Parenting	1.00	2.00
Students in Poverty	.25	1.25
Neglected and Delinquent	.25	1.25
Students in foster homes	.25	1.25

Grade and School		
Kindergarten	-.50	.50
Elementary district students	-.10	.90
Union High district students	.20	1.20
Small School		

Source: K-12 and ESD School Finance, State School Fund Distribution.” Legislative Revenue Office, State of Oregon, pg 4

Targeted Funding Formulas

Special Education students receive an additional weight of 1.⁷⁷ The double weight reflects national studies that show that on average districts spent approximately twice the amount on services to special education students. Special education funding per district is capped at 11% of ADMr. Districts must receive a cap waiver to qualify for additional special education funding. Additional funding is granted to those districts where the cost to the district is higher than additional ADM federal dollars received. The waiver allows districts to claim reimbursement for higher needs students that cost more than \$30,000 per year to educate.

⁷⁶ The exception to the ADM formula is union high school districts.

Students in poverty receive an additional .25 weight. Poverty rates are based on the number of students that are below the poverty line according to the federal census count. For smaller districts (under 2,500) poverty rates are based off free and reduced price lunch with the rationale that they may have higher poverty rates than are accurately reflected in the census. In addition to poverty, foster care and neglected and delinquent children are each weighed at an additional .25.

Education Service District Equity (ESDs)

Like school districts, ESDs began to receive a share of state funding after the passage of Measure 5. Despite increases in state funding, the amount of funding received by ESDs and the level of ESD funding per district, varied. To address the variances in ESD funding the legislature formed an interim legislative task force in 1999. The task force recommended dividing formula revenue by 95% for school districts and 5% for ESDs, an approach that would conclude phase-in in 2005-2006. The also recommended that ESDs adopt the already established K-12 equalization formula, rather than establish a separate funding formula.

Compensation

According to the National Education Association (NEA) in the 2004-2005 school year the state ranked 15th in teacher salary for the estimated average compensation for teachers (\$48,330).

Of the six states we are studying in this analysis, Oregon ranks below two states (Massachusetts, 8th; Maryland, 12th) and above three (Colorado, 24th; North Carolina, 27th; and Kentucky, 34th).⁷⁸

Similarly to the other states in our review, with the exception of North Carolina, Oregon has no statewide salary structure. Instead, teacher pay and benefits are negotiated by each local school district with their teachers. In most districts the salary schedules are determined by years of experience and education.

Professional Development Oregon does not require or fund professional development for teachers. The state receives poor rankings in terms of teacher quality.⁷⁹ Unlike other states in this review, Oregon does not require prospective teachers to have major or equivalent coursework to obtain initial licensure.

⁷⁸ "Rankings and Estimates: A Report of School Statistics Update," National Education Association, Washington, DC, 2005, p. 3.

⁷⁹ Quality Counts at 10: A Decade of Standards-Based Education, Editorial Projects in Education (EPE) Research Center, January 2006, pg 2